OCTOBER 2016

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| **Scope:** This monthly newsletter outlines economic and financial developments in Victoria, nationally and globally. | **By David Martine, *Secretary*, Treasury and Finance** |  |

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|  **Highlights*** Victoria’s annual pace of total and full-time **employment** growth leads the nation.
* However, labour market spare capacity remains elevated, with the underemployment rate at near-record levels.
* Victoria continues to record the fastest annual **population** **growth** across all jurisdictions, driven by net overseas migration.
* **Consumer sentiment** moved further into optimistic territory in October, and Victorian **business conditions** were the highest of all states in September.
* **Oil prices** moved above $US50 a barrel after it was announced OPEC had reached a consensus to scale back production.
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|  | Domestic developments |

Following seven consecutive monthly increases which saw Victorian **employment** rise by more than 100 000 people, a fall of 11 700 persons was recorded in September. Despite this, Victoria’s annual pace of total and full-time jobs growth leads the nation. Of the 105 800 jobs added over the past year, 77 000 have been full-time positions.

Victoria’s **unemployment rate** increased to 5.7 per cent in September, moving slightly above the national average. Reported quarterly, the underemployment rate was 9.5 per cent in August, only slightly below its historical peak, indicating that wages growth is likely to remain low.

At the **industry** level, Victoria’s jobs growth over the year to August was largely driven by the health care, social assistance and construction sectors. Consistent with strong growth in building activity in 2015-16, the latter has provided strong support for full-time employment.

The pace of total and full-time employment growth in regional Victoria also leads the nation. The **regional unemployment** rate was 5.6 per cent in the three months to August, below the national regional average.

However, labour market conditions remain uneven across the state, with the unemployment rate above 6 per cent in the Shepparton region. The youth unemployment rate is 2.0 percentage points lower than the same time last year, but it continues to be elevated in a number of metropolitan and regional areas, including Ballarat and Melbourne’s south eastern and western suburbs.

Victoria’s annual **population** growth rate accelerated to 1.9 per cent over the year to March 2016. This remains the highest rate of growth across all jurisdictions, largely driven by net overseas migration. According to revised estimates, Victoria’s population exceeded six million people in the December quarter 2015.

Following a sharp fall in July, the value of Victoria’s **building approvals** rebounded strongly in August. While monthly results continue to be volatile, Victoria’s annual growth remains the second highest of the states, supported by strong population growth and record low interest rates.

According to ABS estimates, the annual pace of growth of **residential property prices** in Melbourne moderated to 8.2 per cent in the June quarter. However, this growth rate remains highest of the state capitals, ahead of Hobart and Brisbane.

Following two months of contraction, the value of Victoria’s **retail sales** grew by 0.7 per cent in August, equal highest among the states. While subdued, Victoria's annual retail sales growth rate of 2.9 per cent remains slightly above the national average.

Victorian consumer sentiment moved further into optimistic territory in October. Westpac noted that national sentiment has been remarkably stable of late, despite two interest rate cuts from the RBA, a very close Federal election, a Commonwealth Budget and international developments including 'Brexit'.

The latest NAB monthly business survey results show that Victorian business conditions improved further in September, and are now highest of all states. Despite falling over the month, Victorian business confidence remains in positive territory, and is higher compared with the corresponding month last year.

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| H:\temp\Economic Policy Newsletter\Stockmarket.png | Financial markets |

For the first time in eight years, the Organisation of Petroleum Exporting Countries **(OPEC)** reached a consensus to scale back oil production. News of this proposal surprised the market, with crude prices moving above $US50 a barrel, having fallen to a 13-year low of less than $US30 a barrel earlier in the year.

As was widely expected, the **US Federal Reserve** left the target funds rate unchanged at its September meeting. While the path for higher interest rates is looking weaker, with the Fed again downgrading its interest rate projections, market expectations for a December hike remain at around 65 per cent.

In response to persistently low inflation, the **Bank of Japan** announced a further package of expansionary monetary policy measures in an attempt to overshoot its 2 per cent annual inflation target. By doing so, it hopes to convince consumers and businesses that prices are rising, and thereby stimulate demand.

The RBA held the cash rate steady at
1.5 per cent at its October meeting as the Australian dollar remained anchored in the mid-70 US cent range. In its biannual financial stability review, the RBA noted that risks from apartment oversupply in some capital city markets are starting to show, and identified the high level of debt in China as the predominant global risk.

Despite concerns in relation to debt and the sustainability of growth, **China’s** economy expanded at an unchanged annual pace of 6.7 per cent over the year to the September quarter. As a result, it is now almost certain that the government’s growth target of between 6.5 per cent and 7 per cent will be achieved in 2016.

Movements in financial data over the past month

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|  | **20 Oct 2016** | **20 Sep 2016** | **Change** |
| **AUD/USD** | 0.77 | 0.75 | +1.70 per cent |
| **ASX 200** | 5 442 | 5 304 | +2.61 per cent |
| **S&P 500** | 2 141 | 2 140 | +0.07 per cent  |
| **90 day bank bill rate** | 1.74 | 1.73 | +0.01 percentage points |
| **10 year Commonwealth bond rate** | 2.24 | 2.12 | +0.13 percentage points |

*Note: Changes are based on the movement in unrounded figures*